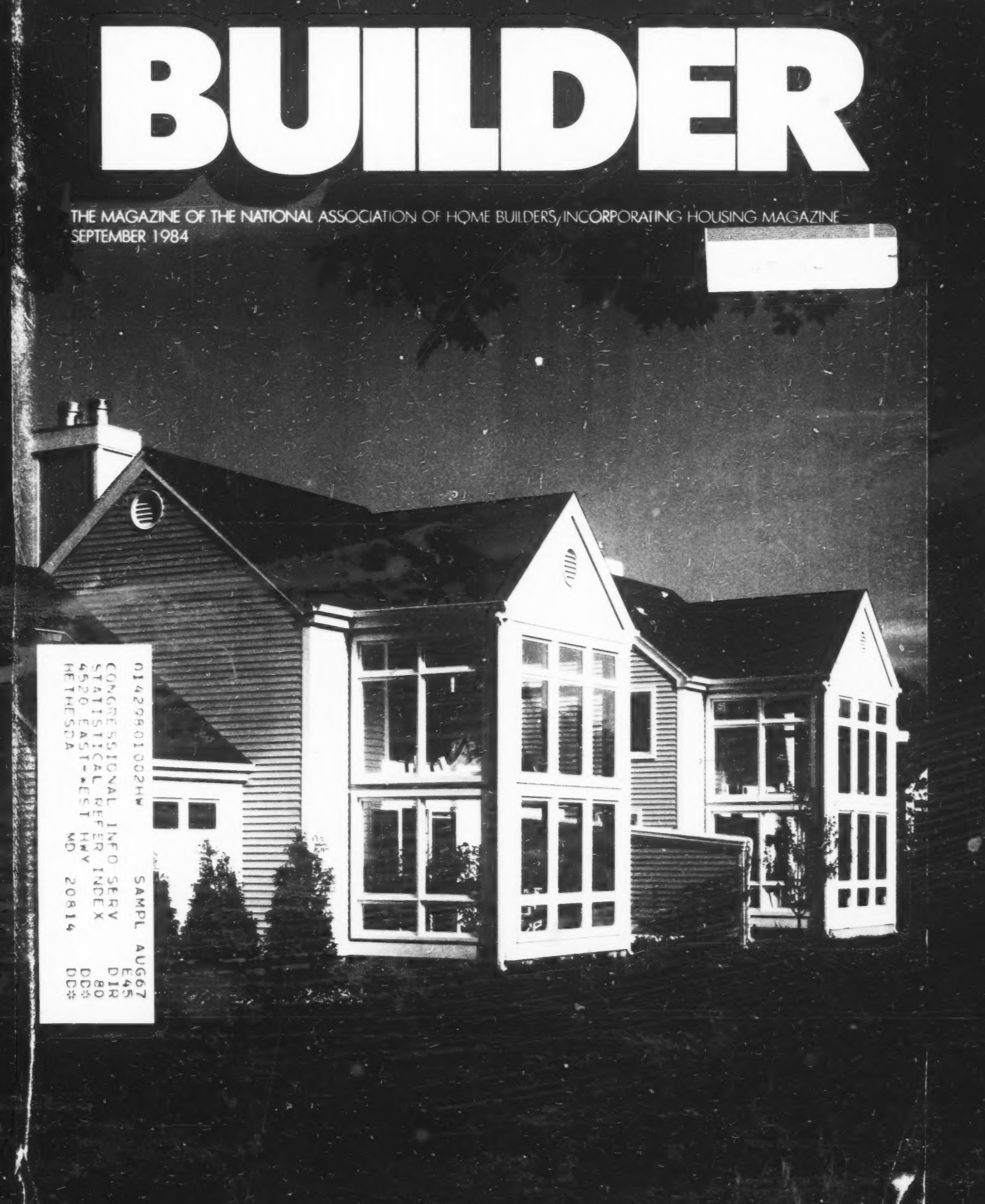
BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
SEPTEMBER 1984



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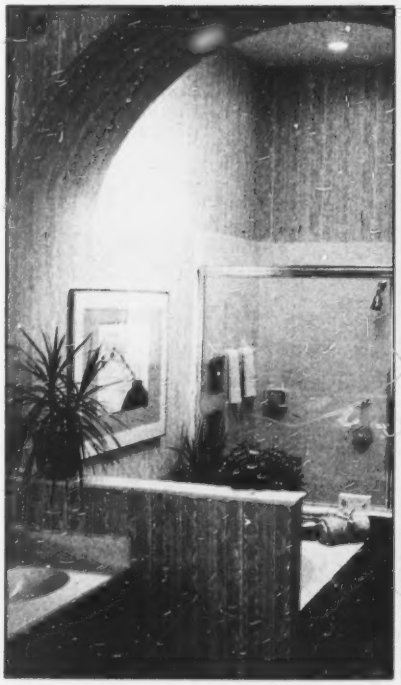
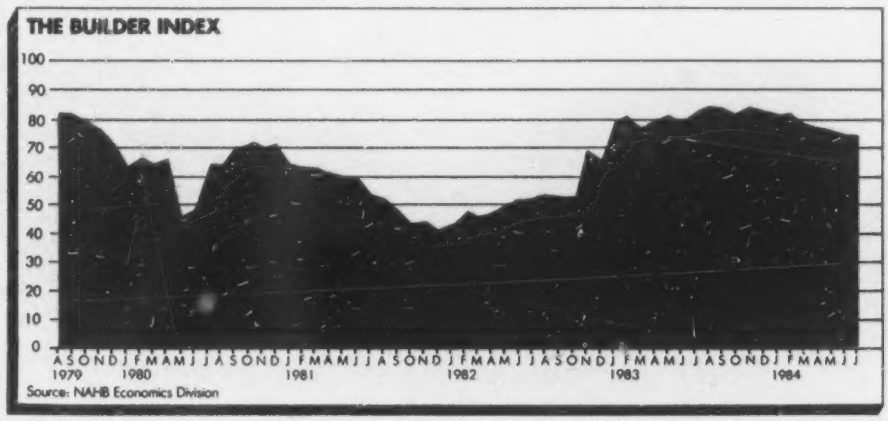


76—BIG SPLASH
Baths used to be no more than functional. Now they're often the splashiest room in the house.

88—FIRST CHOICE
Townhouses and duplexes traditionally have played second fiddle to single-family homes. But attached units that are priced right and well designed are becoming the first choice for many first-time buyers.

102—PROJECT OF THE MONTH
A builder for 13 years but still a carpenter at heart, Robert Murphy also is something of a gambler. He bought a tricky site, then built snazzy townhouses in a proper New England Village. (P.S. His gamble paid off.)
(Cover: Centre Village, Madison, Conn. Photo: Fred Paton)

OUTLOOK A HOUSING INDUSTRY ANALYSIS PREPARED BY THE NAHB ECONOMICS DIVISION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Source: NAHB Economics Division

For the fourth month in a row the BUILDER Index declined. At 74.12 it is at the lowest level since December 1982.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Poised For A Fall

Michael Sumichrast
NAHB chief economist, Washington, D.C.

More than 900,000 new housing units were started in the first half of this year. At least 100,000 fewer units will be started during the second half.

All signs point to a decline of that magnitude. The single-family market already has slowed down. New home sales have declined for four consecutive months; starts have leveled off. The inventory of unsold existing homes is up 11 percent above a year ago.

Then there are mortgage interest rates, which are closing in on 15 percent. Every new increase makes it more difficult to sell homes. For example to qualify for a $72,000 mortgage at 14 percent an income of $40,900 is necessary; at 15 percent income must be $43,400. That 1 percent increase disqualifies about 2.3 million potential buyers.

Look for the single-family housing market to decline into 1985. This year singles should account for about 65 percent of all new units, or 1.12 million starts. That compares with 1.068 million single-family starts in 1983. Multifamily starts should reach 622,000 units, compared with 635,500 last year.

The best we can expect for next year is a drop in total starts to about 1.5 million units, a 14 percent decline.

Assuming my forecast is correct, the next question might be why are housing starts still so high when interest rates have shot up by more than 2 percentage points since spring? (In June starts actually increased to 1.9 million units at an annual rate, up from the 1.8 million units in May.)

An analysis shows that the current strength of the market is multifamily housing. The average multifamily starts rate increased by 11 percent between the first and second quarters of this year while single-family starts dropped 11 percent. The reason: Singles are more sensitive to the rise and fall of interest rates than multifamily units.

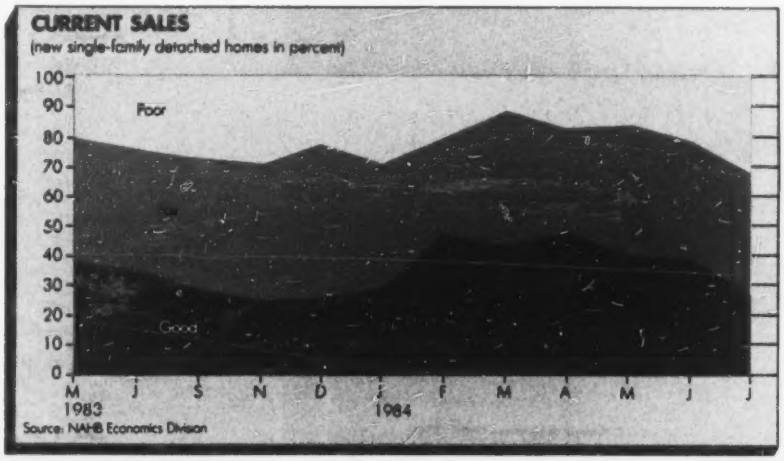
There are other reasons for housing's strength during the first half of the year. Many builders had forward commitments and, in most cases, they went ahead and used them. Why not? The commitments usually carried lower

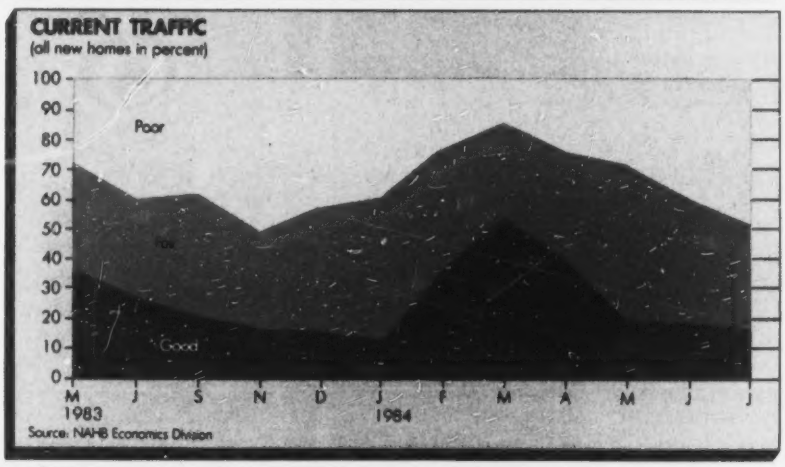
CONTINUED ON PAGE 13

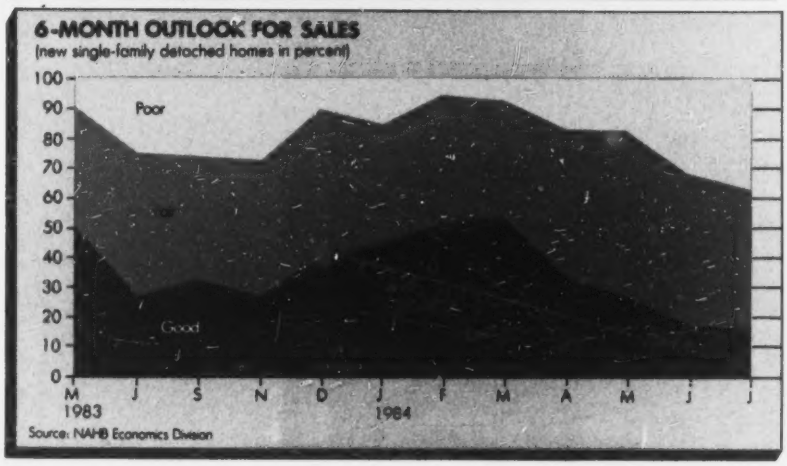
TOP 10 STATES IN HOUSING STARTS

Rank	State	1983 starts	Rank	State	1984 starts
1	Texas	317,500	1	Texas	320,000
2	Florida	180,400	2	Florida	191,400
3	California	165,900	3	California	177,800
4	Georgia	72,200	4	Georgia	80,600
5	Arizona	62,400	5	Arizona	62,400
6	Virginia	53,800	6	North Carolina	60,000
7	North Carolina	33,600	7	Virginia	59,900
8	Oklahoma	50,200	8	Oklahoma	52,000
9	Colorado	49,800	9	Pennsylvania	50,700
10	Louisiana	40,200	10	New Jersey	49,800

Source: NAHB Economics Division, Econometric Forecast







DECLINE EXPECTED

Almost all the comments of builders who responded to the July BUILDER Poll relate to one sore subject: interest rates and their negative effect on housing. An Ohio builder may have summed up best the cause and effect relationship builders see between interest rates and housing. He said, "The market is lousy, and interest rates are responsible."

A North Carolina builder was even more direct. "I am scared to death," he said.

While rising interest rates haven't terrified everyone, they have slowed sales and lowered builders' expectations dramatically. For the fourth consecutive month builders' six-month expectations for new home sales declined (bottom chart), and for the first time in about a year and a half a significant percentage of builders—33 percent—reported that present home sales were poor (top chart).

The percentage of builders who expected sales to be good has declined from a peak of 53 percent in March to only 16 percent in July—the lowest level in two years—while the percentage expecting poor sales has increased from less than 10 percent to almost 40 percent—the highest level in two years.

Traffic also has dropped off (middle chart). In July fewer than one of five builders said buyer traffic was good; about half were reporting good traffic in March.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

BACK TO THE CITY
Metropolitan areas are claiming a greater percentage of housing starts during the current recovery than non-metropolitan areas, according to Chase Econometric Associates. Last year, starts in metro areas jumped 72% from the year before while starts in non-metro areas grew only 27%. And the trend continues. During the first five months of this year, metro starts increased 19% over the same period last year, but non-metro starts declined slightly. Metro starts currently account for 82% of all starts, up from about 70% in the mid to late 1970s. This increase, according to Chase, reflects net population movement back to metro areas and, to some extent, frenetic apartment construction by real estate syndications.

RATES TO HIT 16%
Mortgage rates on conventional fixed-rate loans could hit 16% by year-end, predicts Housing Industry Dynamics (HID). Nevertheless, the research and forecasting company expects a "very mild" housing slowdown, with starts for the year totaling 1.76 million and dipping 6% next year to 1.66 million. HID anticipates another decline of 3% in 1986 to 1.61 million starts. But after that the boom is back with a forecast of 1.8 million starts in 1987.

MAKE THAT 15%
Of course, that's not the only forecast in town. The Economic Advisory Board of the National Council of Savings Institutions believes that fixed mortgage rates will rise no higher than 15% by year-end, edge up a little bit more by the end of the first quarter of 1985 and then retreat about half a percentage point by next summer. This group also expects starts to hold up well, slipping to an annual rate of 1.6 million by year-end and staying at that level for the first half of 1985. Why? Because rates on ARMs will be lower than fixed rates and—thanks to deregulated rates on savings—S&Ls will be much better able to hold on to deposits this time around.

SYNDICATION SALES SOAR
Sales by public real estate syndications continued to soar during the second quarter, rising 38% above the first quarter total to $1.6 billion, according to Kenneth Leventhal & Company.

SLOW GROWTH, NO GROWTH
The U.S. population will grow more slowly from now on and will virtually stop increasing halfway through the next century, according to new projections by the Census Bureau. As a result, the population is about to start aging rapidly. The median age is projected to increase from 30.6 in 1982—an all-time high—to 36.3 in the year 2000. The population aged 65 and over will rise from 27 million in 1982 to 35 million in 2000.

RESALES SLIDE AGAIN
Sales of existing single-family homes declined 2.3% in June to an annual rate of 2.99 million units, reported the National Association of Realtors (NAR). Although it was the second straight month of decline, June resales were still 6% higher than in June 1983. Resales were down in all regions but the West, where activity increased 7%. And the inventory of unsold existing houses at the end of June remained at a 10.6-month supply. NAR also reported that the median price of existing single-family houses rose $1,100 in June to $74,200, nearly 4% higher than the median price in June 1983.

CONTINUED FROM PAGE 11
interest rates. Plus it's hard to stop construction. Once begun, building tends to continue, in part because builders are eternally optimistic.

As always the housing boom has benefitted some regions more than others. The South should account for 52 percent of all new starts, the West for 21 percent, the North Central for 15 percent and the Northeast for 12 percent.

Three states lead the nation: Texas, Florida and California. This year these three states will account for 40 percent of all new starts; the top four will account for 45 percent and the first six will account for 51 percent of all new units (see table, page 11).

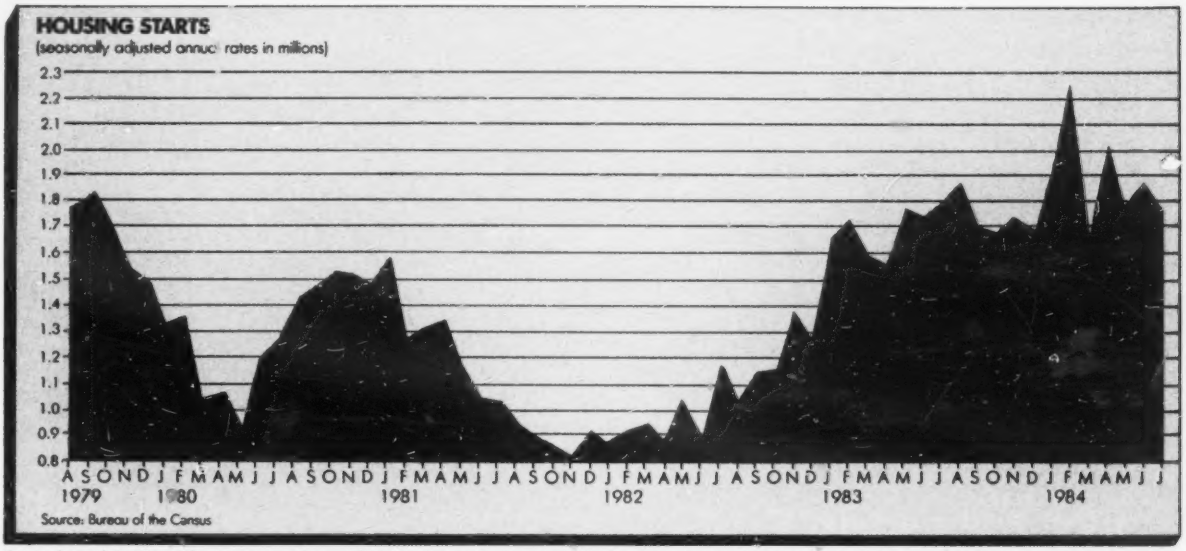
Of the top 10 metropolitan housing markets, six are in the South and four are in the West. The Dallas-Fort Worth metropolitan area continues to be number one in total starts, even though starts this year will decline about 20 percent from 1983. Last year an unbelievable 112,500 new units were built in Dallas-Fort Worth. A drop this year to about 90,000 units still will leave this area with nearly twice as many starts as the second ranking city, Atlanta. It's projected that Atlanta will start 49,700 new units this year.

The Houston market, while still comparatively robust, is losing ground. It's dropped from second to fourth. Meanwhile Atlanta and Phoenix have moved to second and third places, due to large surges of employment in those areas. Washington, D.C., is in fifth position among the top 20 metropolitan areas in housing starts.

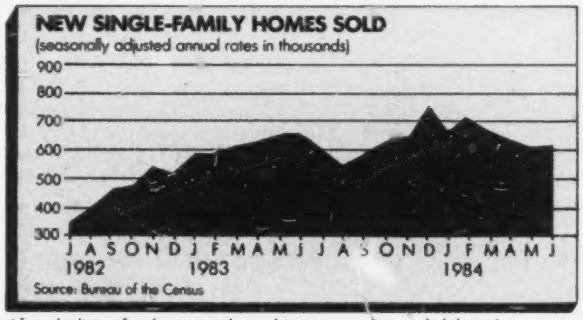
Of those 20 areas, only four had unemployment rates above the national average of 7.7 percent. The unemployment rate during March 1984 was only 3.9 percent in Dallas-Fort Worth, down from 5.8 percent a year ago. During the same time the number of employed in Dallas-Fort Worth increased by 138,830, or 8.4 percent.

Unfortunately that kind of robust growth is restricted to a few markets. In other areas interest rates, not employment rates, are the key variable. I expect interest rates to increase into 1985, and that makes me believe housing production peaked in the first quarter of this year. In the second quarter starts dropped 4 percent and further decline seems inevitable.

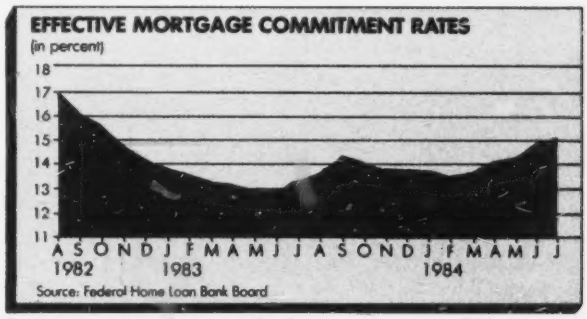
Builders who responded to the June and July BUILDER Polls expressed deep concern about high interest rates. Maybe it's time for builders and other users of credit to stand up and say rates are unreasonably high.



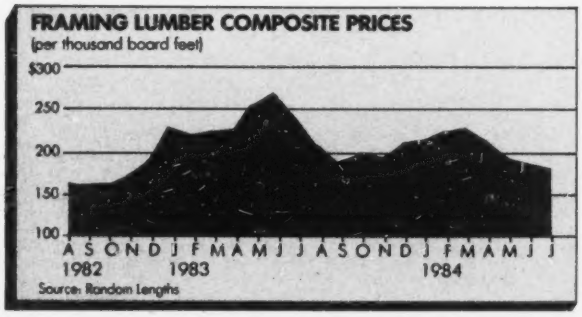
Starts dipped 6.6% in July to an annual rate of 1.76 million units, but single-family starts dropped 10% to 982,000—the lowest rate since December 1982. Multifamily starts slipped 2% in July to 779,000, despite a rise in 2-4 family construction.



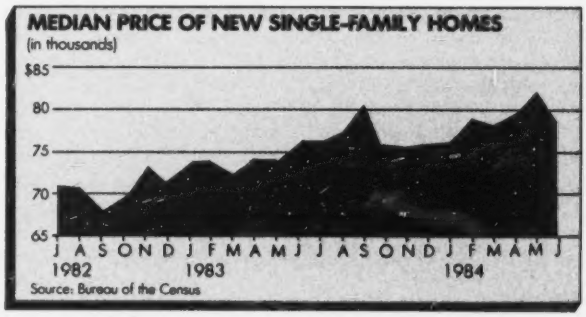
After declining for three months, sales increased very slightly in June to an annual rate of 620,000 from a revised May rate of 616,000. The June sales rate was 5.3% lower than a year earlier.



Commitment rates on long-term, fixed-rate mortgages rose 23 basis points in July to 15.20%—the highest level in more than a year and a half. Uncapped adjustable rates also rose 23 basis points to 13.18%.



Lumber prices continued their decline, slipping to $183 per thousand board feet in July—the lowest price since November 1982. The July price was down 3% from June and was 24% lower than a year earlier.



The median price of new homes dropped by $3,200, or 4%, in June to $78,900. That was 4% higher than a year earlier.

NEWS

ECONOMY

HOUSING IS HEADED FOR ANOTHER RECESSION

Here we go again. With the interest rate roller coaster once again heading for the hill, the housing market seems destined for another dip. But the drop should be shorter and shallower than last time.

"We're heading for another housing recession," predicted Michael Sumichrast, NAHB's chief economist, "but it should be somewhat moderate."

He and a number of other housing experts expect rates on fixed-rate mortgages to rise to roughly 16 percent before beginning to fall next summer.

"Interest rates will go higher than current levels," said Leonard Santow, a New York investment consultant, "but they won't reach the heights of the last recession." During the 1981-82 recession, the price of fixed-rate mortgages skyrocketed to an average of 17.5 percent while the prime rate steamed past 20 percent.

Despite Santow's reassurances, it's doubtful that many prospective home buyers would be able to tell the difference between a 16 percent mortgage and a 17.5 percent mortgage.

Climbing mortgage rates will reduce monthly housing starts to an annual rate of 1.4 to 1.5 million by the end of this year, according to the forecasters. Their predictions for next year range from 1.3 to 1.5 million starts, with the low occurring about mid-year.

Sumichrast, who, for a change, was the most optimistic of the bunch, believes starts will fall 15 percent next year. "I'm not overly pessimistic because housing has enough momentum to carry us into 1985," he said. "Is 1.5 million starts bad? It's better than the 1.06 million we had in 1982."

This housing recession should be less severe than the last one for a number of reasons.

"The most important reason housing won't fall as much this time is that we're just coming out of recession," explained Timothy Howard, chief economist for the Federal National Mortgage Association (Fannie Mae). "Because the recovery is still young, there is a residue of demand. And income growth and employment will hold up better this time."

Another big difference is that credit won't dry up as it did in 1981-82. Savings and loans have used up a big portion of the bonanza they reaped from deregulation, but Howard predicts commercial banks and mortgage bankers will continue aggressive lending.

"Money is still incredibly available," he said.

Creative financing techniques such as buy-downs and ARMs, which came of age during the last recession, also will help cushion this one, according to Ken Rosen, chairman of the Center for Real Estate and Urban Economics at the University of California, Berkeley.

The rebirth of mortgage revenue bonds, authorized by the deficit reduction legislation passed this summer by Congress, will mitigate the housing downturn as well. The program, which provides tax-exempt, below-market rate money to first-time home buyers, will spark "a little surge," Santow predicted. Sumichrast estimated that the bonds will finance up to 100,000 units this year.

Howard notes yet another reason why this recession will be milder than the last one. "Single-family builders are keeping a close eye on inventory, so single-family construction won't drop off as precipitously as last time."

Although total starts stayed remarkably high during the first half of the year—they still reached 1.9 million in June—single-family starts declined

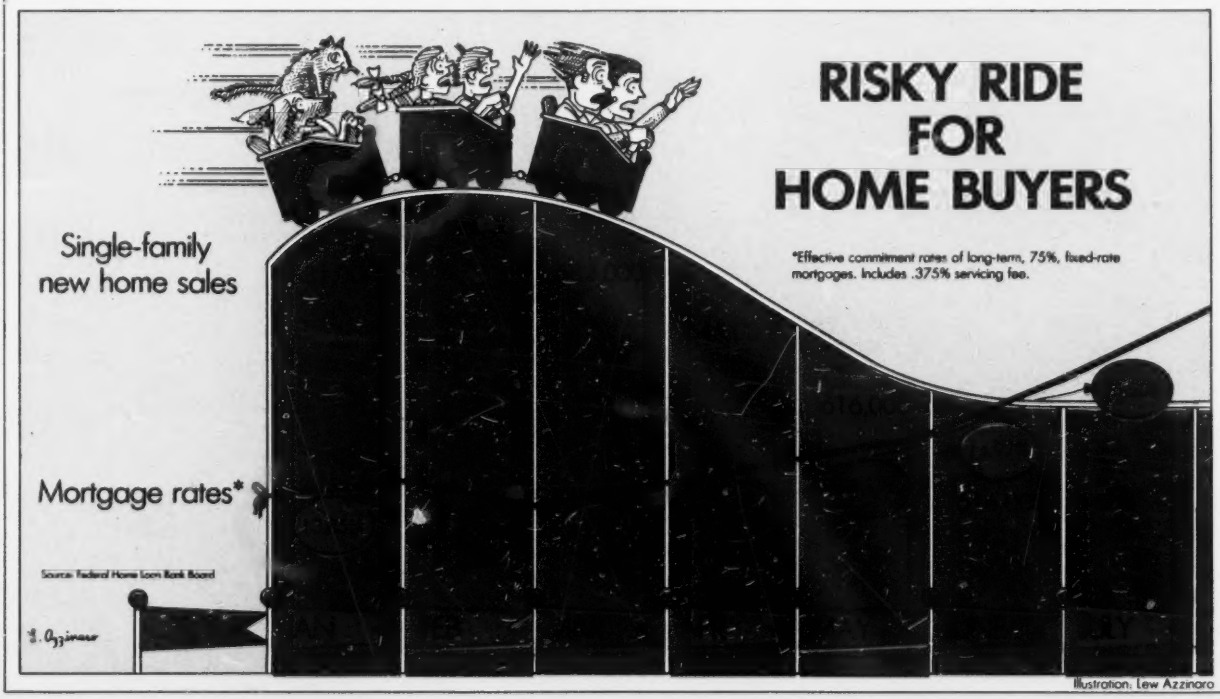

RISKY RIDE FOR HOME BUYERS
Single-family new home sales
Mortgage rates*
*Effective commitment rates of long-term, 75%, fixed-rate mortgages. Includes .375% servicing fee.
Source: Federal Home Loan Bank Board
L. Azzinaro

Illustration: Lew Azzinaro

in both May and June. New home sales started down a month earlier. Meanwhile, however, multifamily construction showed surprising strength.

"There is pent-up demand in the single-family market, but financing is a problem," Howard said. "The situation is reversed for multifamily." Although apartment rental vacancies are up, investors are still pouring money in, especially in the South where overbuilding is a problem in a number of markets.

Nevertheless, Howard predicted that the investor-driven multifamily market will weaken next year.

One thing that won't ease the coming housing downturn is the recently enacted $63 billion deficit reduction package.

"It was a minimal, disappointing package," said Santow who predicted that it won't stop the 1985 deficit from being at least as big as this year's.

Sumichrast agreed, adding that he expects the entire tax system to be restructured next year—after the election. In fact Robert Dole, chairman of the Senate Finance Committee, has indicated as much. He says Congress has gone about as far as it can with nickel and dime "revenue enhancements."

Although all the economists quoted here agree that housing is heading for a dive, each believes it will be short and relatively mild. According to Rosen, the industry will be back in recovery by the second half of next year.

But there is less agreement about whether the housing recession will spread to the rest of the economy. In Rosen's view, it won't. "Last time, it was an economy-wide recession. This time unemployment won't go up much, and the general economy will experience only a minor downturn."

That scenario would help keep the housing recession relatively moderate. However, not everybody agrees with Rosen's forecast.

"The high rates that hurt housing will affect the rest of the economy later, resulting in a general downturn," Howard prophesized. But "this recession won't be as long or as deep as last time," he said.

Carol Anderson, News Editor

MARKETING

SALES SLUMP SPURS CREATIVE MARKETING

Medema Homes, Denver, tried offering free airline tickets to buyers and now is giving them zero-coupon municipal bonds.

The Hayden Company, St. Louis, is giving away a $10,000 down payment on a new home.

U.S. Home Corporation is back in the auction business.

In Chicago, the Hoffman Group reduced prices and started paying closing costs.

All these methods are aimed at the same thing: spurring sales which slumped this summer in the face of rising mortgage rates.

Nationally, single-family sales fell 14 percent between February and May. And mortgage rates have climbed nearly two percentage points since March, causing second quarter sales in some markets to dive 30 to 40 percent compared with the same period last year.

All this galvanized many builders to revive recession selling tactics in an urgent effort to move as many units as possible before rates rise even further.

U.S. Home decided to go the auction route. About 200 homes in seven markets (Houston, Chicago, San Antonio, Denver, Tulsa, New Orleans and Annapolis, Md.) were scheduled for auction between June and mid-August.

"We had some excess inventory, and the auction was the quickest way to get rid of it and clear the way for more current product lines," said Bill Weidman, a spokesperson for U.S. Home.

The company's excess inventory was a result of fewer than expected sales in the second quarter of the year. U.S. Home's sales during the period were 32 percent lower than the 3,600 sales recorded in the second quarter of 1983.

All the homes offered at auction by late July had been sold, Weidman said, because there was no minimum bid. Auction prices generally range from 50 percent to 100 percent of the original selling price, depending on the market and model, he added.

"We've had auctions where we broke even and others where we lost money," explained Kelly Fawcett, director of investor relations for U.S. Home.

But U.S. Home obviously believes that auctions are worth the gamble, considering the risks of carrying inventory at current interest rates. "The auctions have gotten our inventory back under control," Weidman said.

U.S. Home started using auctions during the last recession in 1981, but Medema Homes has instituted a new sales incentive that wasn't around three years ago.

The company gives each home buyer a zero-coupon municipal bond in the amount of the purchase price of the home (see August BUILDER, page 42). Homeowners can cash in the 25 to 35-year bonds any time, but they receive the full face value only if the bonds are kept to maturity. And interest is compounded rather than paid out periodically.

Photo: Murray Getz

U.S. Home auctioned off 108 new homes in Houston this summer. The company also auctioned homes in six other markets to reduce excess inventory.

The Denver-based company started offering the bonds in mid-July and, after only one week, subdivision traffic had picked up noticeably, according to James Wise, vice president of sales and marketing.

He wouldn't say how much the bonds cost the company, but other builders using similar programs report they cost nearly 4 percent of the bond's face value plus the broker's

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for preferential tax treatment. NAHB disputes that position, arguing that multiple maturity pass-throughs reduce prepayment risk equally for all investors rather than shifting the risk from one investor group to another.

The IRS held hearings on the proposals in late July. It is not known when final regulations will be issued.

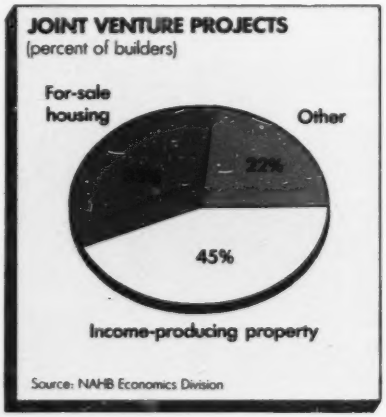
MANAGEMENT

ARE JOINT VENTURES A NECESSARY EVIL?

Are joint ventures with financial institutions a necessary evil for home builders? According to a recent survey by NAHB's economics division, nearly one out of every five builders thinks so. This percentage runs true regardless of how big (100 or more units a year) or small (less than 10 units a year) the builder.

Necessary evil was the middle-of-the-road position. One out of three builders surveyed saw joint ventures as an excellent way for builders to reduce capital requirements and risk, or a good way for smaller, independent builders to compete with larger public companies.

On the other hand, 40 percent took a dimmer view, agreeing that joint ventures would lead either to the end of the small, independent builder or to direct building activities by financial institutions.



Of the 170 home builders queried, only 14 percent or one in seven had participated in a joint venture last year; bigger builders were more active in joint ventures than smaller builders. No builder building fewer than 10 houses a year reported participating in a joint venture, while 10 percent of those building 10 to 24 units a year, 24 percent building 25 to 99 units a year and 24 percent building 100 or more units a year took financial institutions as equity partners.

Other survey findings were:

- About one-third of the builders who participated in joint ventures last year did for-sale housing projects and 45 percent joint ventured income-producing projects;
- About one-third of the participants in joint ventures indicated they could have obtained straight debt financing at reasonable rates for their projects; 20 percent said they could not. The rest—47 percent—indicated they were not sure if they could have obtained straight debt financing at feasible rates without the equity participation of financial institutions.

MANAGEMENT

PUBLICLY HELD BUILDERS PUSH TO GO PRIVATE

Sailing against the 1983 tide when about half a dozen housing companies went public (BUILDER, November 1983), at least two publicly held home building companies have explored a return to the private sector. Executives of Ryan Homes are working out plans to buy stock back from shareholders and the founders of Shapell Industries recently repurchased all outstanding stock.

In the case of Pittsburgh-based Ryan, a BUILDER 100 company ranked as the fifth most active building company, senior management including chairman Malcolm M. Prine would become the owners. "We are offering ownership opportunity to all in senior management positions, but we don't know how many will participate," reported Ryan spokesman Charles W. Prine, Jr., a senior vice president (and no relation to the chairman).

Ryan is going private, Prine continued, "because senior management thinks the company is a good investment." Wall Street analyst Alan Wapnick of Dean Witter Reynolds, sees other reasons as well. "With Ryan's current very positive cash flow, the need to remain public to afford access to public capital does not appear necessary. The funding of the mortgage finance operations can be readily accomplished as a private company."

Wapnick added that going private may also be an attempt to prevent an unfriendly takeover, a suggestion that Ryan's Charles Prine denied.

Ryan's stock, currently selling at around $19 a share, is underpriced, according to Wapnick. For the past year the stock, which is traded on the New York Stock Exchange, fluctuated between a high of $45 and a low of $17.

Under the proposed buy-out, Ryan management would offer shareholders $24 a share for the approximately 7.3 million shares outstanding. The total buy-out is valued at $176 million.

From an investor's point of view, Wapnick considered the $24-a-share offer "cheap from all but the most short-term viewpoints." David Wilson, an analyst with Wall Street's Shearson Lehman/American Express, observed that the price is well below the break-up value of the company which he estimates to be $26.50 a share.

"The leveraged buy-out at $24 a share is attractive for management," Wilson reported. "The shareholder, on the other hand, should get at least $26.50 and maybe a little more. However, he cannot expect to receive top dollar since he should be willing to leave something on the table for management."

Wilson concluded that management's incentive is to obtain a well-run company capable of generating significant cash flow in the years ahead and that it should not have problems raising the $176 million necessary for the leveraged buy-out.

A leveraged buy-out occurs when a company is acquired in a transaction financed largely by borrowing. Ulti-

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ARMs without these safeguards must be underwritten at the more conservative monthly housing expense-to-income ratio of 25 percent and total monthly debt-to-income ratio of 33 percent compared with the more liberal ratios of 28 percent and 36 percent respectively.

In addition, certain ARMs are restricted to a maximum 90 percent loan-to-value ratio: graduated payment ARMs; mortgages with rate discounts or buy-downs greater than 2 percent that include payment caps; and ARMs with different rate and payment adjustment periods over three years.

Carol Anderson

MULTIFAMILY

DOORS ARE CLOSING FOR LOW-INCOME HOUSEHOLDS

Last year was a boom period for housing, but not everybody got to go along for the ride.

The housing situation for low-income households actually worsened in 1983 as federal cutbacks in assisted housing—primarily the gutting of the Section 8 new construction program—took full effect.

That's the conclusion of a survey of 66 cities conducted recently by the U.S. Conference of Mayors. The survey, titled *Housing Needs and Conditions in American Cities*, found that the demand for assisted housing increased while the supply diminished.

Applicants had to wait for housing assistance an average of 20 months, but waiting lists for families seeking housing certificates under the Section 8 existing program often were much longer, in one instance nearly 30 years. Worse yet, almost two-thirds of the cities had closed their waiting lists and stopped accepting new applications.

Even when families received certificates, they weren't home free. More than half the cities reported that at least a quarter of the certificates they issued had to be canceled because recipients couldn't find units that met program requirements. In fact, a quarter of the cities said their cancellation rate was 50 percent or higher.

AVERAGE WAIT FOR ASSISTED HOUSING
(in months)

Program	Household type			
	Family	Large family	Elderly	Handicapped
Public housing	18	23	16	8
Section 8 certificate	25	24	16	10

Source: U.S. Conference of Mayors

That is evidence of a supply problem and, in fact, more than half the cities reported that the housing supply for low and moderate-income households had decreased or remained the same since 1979. They most often cited "decreased construction" as the cause of the decline.

The report laid much of the blame for a shrinking supply with the federal government, charging that budget cuts since 1981 have reduced federal low-income housing resources by nearly 60 percent—"the largest percentage reduction of any discretionary program category in the budget."

Moreover, an overwhelming 89 percent of the cities believe that the private sector cannot meet rental housing needs without subsidized production programs.

MULTIFAMILY

NEW MULTIFAMILY BOND PROGRAM HAS AAA RATING

When the Federal Savings and Loan Insurance Corporation (FSLIC) multifamily housing bond program was eliminated last year, a void was created in the market. Now FISER, a Santa Barbara financial and investment service company, has come up with a unique twist to the insured municipal bond program to fill that void.

The FSLIC program insured city (or other municipality) funds raised through municipal bonds, deposited in financial institutions and lent to home builders. Because of the insurance, the bonds qualified for Triple-A Standard and Poors ratings. The AAA rating, the highest Standard and Poors offers, meant the city could offer the bonds at preferred interest rates. Typically, in today's market, if a city can boost its bond rating from A to AAA, it can save about 75 basis points on the issue's interest rate. This saving then can be passed on to builders who borrow the funds to build affordable multifamily housing.

When FSLIC was legislated out of the municipal bond picture, insurance companies stepped in and offered to insure funds, thus preserving the AAA rating. But the insurance companies insisted that the lending institutions put up collateral equal to or in excess of the funds in question. For example, on a $30 million issue, the insurance company would insure a lending institution's $30 million commitment to a developer but would demand that the lender pledge another $30 to $35 million in collateral.

"That means the lending institution has a $30 million transaction obligation plus $35 million in collateral tied up. The $65 million becomes onerous," commented David L. Parker, president of FISER. Understandably, financial institutions were less than excited about involving themselves in such programs. FISER looked for a way to turn them on.

FISER's solution was to work with partner Financial Market Insurance Service (FMIS), an agent for Industrial Indemnity, the 14th largest insurance organization in the United States, to insure the funds without requiring collateral from lending institutions. "This avoidance of over-collateralization makes the plan unique among the insured municipal bond programs," Parker claimed. FISER and FMIS worked out the arrangement by prequalifying lending institutions, developers and investment bankers before each issue. As with FSLIC, 20 percent of units constructed under FISER's program must be set aside for affordable housing.

The key factor for bond holders is that if the financial institution defaults on the bonds, assurance of repayment

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